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UNCLAS SECTION 01 OF 02 RIO DE JANEIRO 000165

SENSITIVE
SIPDIS

STATE FOR WHA/BSC, WHA/EPSC, EB/ENR
USDOE FOR SECRETARY BODMAN, CAROLYN GAY AND RHIA DAVIS
DHS FOR SECRETARY CHERTOFF

FROM AMBASSADOR SOBEL

E.O.: 12958: N/A

TAGS: [ECON](#) [EINV](#) [ENRG](#) [PGOV](#) [PBTS](#) [MARR](#) [BR](#)

SUBJECT: AMBASSADOR SOBEL MEETS WITH KEY ENERGY ENTITIES IN RIO

Ref(s): A) 08 RIO DE JAN 138; B) 08 RIO DE JAN 0044 and previous

Sensitive But Unclassified - Please handle accordingly.

This message has been approved by Ambassador Sobel.

SUMMARY

1. (SBU) On June 6 Ambassador Sobel met with the two top executives of the Brazilian Petroleum Institute (IBP), an association representing the 71 energy companies operating in Brazil, and with Petrobras' new International Director, Jorge Luiz Zelada. In both meetings, discussions centered on the effects of the large oil and gas discoveries off the Brazilian coast in the Santos basin - an area measuring 800 km long and 200 km wide with an estimated potential of more than 80 billion barrels of oil equivalent (boe). The Ambassador explored opportunities for developing new bilateral partnerships in light of upcoming visits by DHS Secretary Chertoff and DoE Secretary Bodman. He also discussed the possibility of developing a strategic partnership with Petrobras. End Summary.

IBP DISCUSSES SANTOS BASIN AND SOVEREIGNTY CONCERNS

2. (SBU) On June 6, Ambassador Sobel met with IBP President Joco Carlos de Luca and Executive Secretary Alvaro Alves Teixeira. They explained that IBP's goal is to protect and develop the oil industry in Brazil, while at the same time supporting and encouraging the free market in Brazil. To that end, they occasionally find themselves at odds with Petrobras, a majority shareholder in IBP, as well as Petrobras's Exploration and Production (E&P) Director Guilherme de Oliveira Estrella, who happens to be the Chair of IBP's board. Their most recent disagreement has been over continuing application of the concession model to E&P in the Santos Basin - which IBP supports vs. development of a new production sharing model where companies would pay royalties in oil vs. petrodollars (Ref A). Royalties are currently at 65 percent, and the GoB is considering a rate hike (which ANP supports). Petrobras, which controls 90 percent of E&P in Brazil is advocating for the production-sharing model. IBP believes that adopting a new model would unnecessarily delay ANP conducting new oil rounds, since any new model would have to be approved by the Brazilian Congress.

3. (U) The Ambassador expressed interest in building a stronger working partnership with Brazil to increase world energy security. He inquired as to what public resources the United States could offer to assist Brazil with oil and gas exploration of the pre-salt areas of the new huge Santos basin off Brazil's coast, an area 800 kilometers long, extending from Santa Catarina to Espirito Santo and 200 kilometers wide. He also asked about opportunities for U.S.

companies.

¶4. (SBU) The IBP executives highlighted Brazil's concerns that the United States is not a signatory to the UN convention recognizing the 200 nautical mile economic zone. They also expressed concern about the recent announcement of the reestablishment of the Fourth Fleet headquartered in the U.S. Southern Command, which occurred at about the same time as the Santos Basin reserves became public knowledge. They explained that the GOB is very sensitive about sovereignty and that the Fourth Fleet announcement "could not have come at a worse time," causing a nationalist, protectionist reaction in Brazil. There is concern that the United States could threaten to use its considerable military assets to commandeer and exploit Brazil's offshore assets. The IBP officials felt that an offer to help Brazil develop a defense system to protect its "blue Amazon" would further build on an already positive relationship that exists between our two Presidents. Ambassador Sobel assured the IBP officials that the United States does indeed recognize Brazil's economic zone as extending 200 miles off Brazil's coastline. He stated that he would seek guidance on this issue, and raise it with DHS Secretary Chertoff and Defense Minister Nelson Jobim.

¶5. In response to the Ambassador's inquiry about the commercial viability of extracting oil from the Santos Basin given the complexity (and expense) of drilling in the pre-salt area, the IBP representatives pointed out that the large potential finds announced in Tupi (5-8 billion barrels of oil equivalent) and Carioca (33 billion barrels of oil equivalent) represent a small sampling of the oil and gas reserves that may lie in the pre-salt area, which is 2000 to 3000 meters (6,000-10,000 feet) below sea level and could yield more than 80 billion boe - a find that would rival the North Sea and secure Brazil's place in the global arena as a major energy

RIO DE JAN 00000165 002 OF 002

producer. Given Brazil's leadership in ultra-deep E&P technology, it could easily handle depths of that magnitude; however, exploration in the pre-salt area may strain Brazil's exploration capabilities. They also noted that while the intellectual capital for E&P lies with U.S. companies, DoE technology would be of considerable value to Brazil.

¶6. (U) The Ambassador offered to explore the idea of a visit by DoE technical experts to assess what resources DoE might be able to offer in support of Brazil's expressed desire to explore the Santos Basin, and to prepare for Secretary Bodman's visit.

PETROBRAS PLANS TO BECOME A GLOBAL ENERGY SUPPLIER

¶7. (U) Ambassador Sobel and Denis Bovin, a member of the President's Intelligence Advisory Board, met with Petrobras' new International Operations Director Jorge Zelada to discuss what role the USG might play in supporting Petrobras' E&P and distribution of oil and gas discoveries in the Santos Basin, and Petrobras' investment in the United States. Zelada explained that Petrobras is seeking to strengthen its position as a global energy supplier. Its board is currently determining how to best achieve that goal given challenges presented by geology, technological limits and resource restrictions, and should have a revised five-year plan by the end of ¶2008.

¶8. (U) Every year, the Petrobras board conducts a mid-year assessment. This year, the board is reconsidering resource allocations between domestic and international operations for the next five years. According to Zelada, the discoveries in the Santos Basin will affect how and where Petrobras invests abroad. He asserted that Petrobras will continue to grow as a global energy company, but may have to refocus and refine some of its international activities. It is prioritizing West Africa, the Gulf of Mexico, Nigeria, and Angola.

¶9. (SBU) Responding to the Ambassador's concerns with Petrobras' activities in the Iran and the Caspian, Zelada explained that Petrobras understood and was sensitive to those concerns. He echoed Samir Awad's assertions (Ref B) that Petrobras was unlikely to renew or seek new contracts in Iran.

¶10. (U) Zelada went on to affirm that the US\$5 billion Petrobras has invested in the United States (out of US\$15 billion internationally) is likely to increase and will be part of an overall integrated refining strategy. (Note: Petrobras produces mainly heavy crude and must import light crude for refining. End Note). Petrobras is adapting its refineries to work more with light crude to address a production surplus in Brazil. Zelada said that Petrobras is trying to acquire the other 50 percent of the Pasadena refinery in Houston to alleviate refining pressure in Brazil and referred to the new Pernambuco refinery, which is a joint venture between Petrobras and PDVSA, Venezuela's state-owned oil company.

¶11. (U) Ambassador suggested that when in Washington, Petrobras executives meet with Senator Lugar, and that they meet with Secretary Chertoff and Secretary Bodman during their visits to Brazil. The Ambassador also offered to look into the possibility of bringing in USG resources and technology to complement Petrobras' efforts.

COMMENT

¶12. (U) Comment: The recent discoveries in the Santos Basin have created a golden opportunity for the United States to deepen its strategic relationship with Brazil's public and private sector to ensure global energy security. To the extent that we can, we should encourage U.S. resources to support Brazil's E&P efforts in the Santos Basin. No doubt key officials in the Brazilian government and Petrobras board would appreciate the offers of technological support and partnership to allay fears of the United States not respecting Brazil's sovereignty. Such a partnership could also offer additional strategic benefits in terms of joint E&P efforts around the globe. Additionally, positive engagement in this dynamic area at the early stages of exploration could reap benefits both in terms of enhancing U.S. energy security, as well as continuing to improve the bilateral relationship through cooperation in an area of mutual interest.

MARTINEZ